

AR18

1975 Annual Report

NUMAC OIL
& GAS
LTD.



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AR18

*Financial
Report
to
Shareholders*

NINE MONTHS ENDED
SEPTEMBER 30, 1975

NUMAC OIL & GAS LTD.

File
NUMAC OIL & GAS LTD.

**CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1975
(with 1974 figures adjusted for comparative purposes)**

	1975	1974
INCOME		
Gross operating income	\$6,114,563	\$4,305,360
Investment income	267,647	299,558
Gain on sale of investments	37,854	188,697
Supervision and sundry	38,757	38,107
Mackenzie Delta (Note 1)	200,000	—
	<u>6,658,821</u>	<u>4,831,722</u>
EXPENSES		
Cost of sales	207,087	114,009
Operating expenses	1,631,186	1,036,824
General and administrative	309,841	243,723
Interest on long-term debt	722,220	369,383
Interest other	68,394	93,381
Provision for depletion, depreciation and amortization	731,671	700,146
	<u>3,670,399</u>	<u>2,557,466</u>
NET INCOME BEFORE THE UNDERNOTED	2,988,422	2,274,256
Gain on sale of fixed assets	34,087	—
NET INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	3,022,509	2,274,256
Current income tax	(254,534)	—
Deferred income tax (Note 2)	1,362,425	919,100
Total	<u>1,107,891</u>	<u>919,100</u>
NET INCOME BEFORE MINORITY INTEREST	1,914,618	1,355,156
Income applicable to minority interest	22,779	12,300
NET INCOME FOR THE PERIOD	1,891,839	1,342,856
Retained earnings, January 1	8,176,032	6,283,916
RETAINED EARNINGS, September 30	<u>\$10,067,871</u>	<u>\$7,626,772</u>
NET INCOME, per share	43.7¢	31.0¢

NOTE 1:

In accordance with the Company's policy relating to the full cost method of accounting, the cost of the Company's interest in the Mackenzie Delta properties is included in the Canadian Frontier Cost Centre which has an accumulated balance at December 31, 1974 and September 30, 1975 of a nominal \$1.00. Therefore, all revenue received relating to the Company's interest in the properties is included as income in these financial statements.

NOTE 2:

The Company has recorded deferred taxes for all timing differences in accordance with the "allocation method" adopted by the Company as at January 1, 1974.

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1975
(with 1974 figures adjusted for comparative purposes)**

	1975	1974
SOURCE OF WORKING CAPITAL FROM OPERATIONS		
Income	\$6,658,821	\$4,831,722
Provincial royalty tax credit	254,534	—
Less: Cost of sales, operating, general and administrative and interest expenses	(2,938,728)	(1,857,320)
NET FUNDS FROM OPERATION	3,974,627	2,974,402
Sale of fixed assets	68,174	—
Proceeds of long-term debt	624,160	1,828,493
Sale of treasury stock under key employee stock purchase plan	70,875	—
Reduction of long-term receivables	4,479	—
	<u>4,742,315</u>	<u>4,802,895</u>
APPLICATION OF WORKING CAPITAL PURCHASE OF FIXED ASSETS		
Exploration and development	3,975,319	2,695,673
Production and other equipment	678,780	575,537
Real estate and buildings	40,936	1,831,441
TOTAL PURCHASES OF FIXED ASSETS	4,695,035	5,102,651
Reduction of long-term debt	179,120	—
Repayment of minority shareholders loans	400,000	—
Key employee stock purchase plan loans	70,875	—
	<u>5,345,030</u>	<u>5,102,651</u>
(DECREASE) IN WORKING CAPITAL	(602,715)	(299,756)
Working Capital, January 1	5,661,175	5,515,726
WORKING CAPITAL, September 30	<u>\$5,058,460</u>	<u>\$5,215,970</u>

W. S. McGregor

Edmonton, Alberta
November 5, 1975

W. S. McGregor
President

CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION

FOR THE SIX MONTHS ENDED JUNE 30, 1975
(with comparative figures for 1974)

	1975	1974
SOURCE OF WORKING CAPITAL FROM OPERATIONS		
Income	\$4,404,738	\$2,974,799
Provincial royalty tax credit	144,960	—
Less: Cost of sales, operating, general and administration and interest expenses	(1,900,345)	(881,532)
NET FUNDS FROM OPERATIONS	2,649,353	2,093,267
Sale of equipment	64,675	—
Proceeds of long term debt	—	1,735,149
Sale of treasury stock under key employee stock purchase plan	70,875	—
Reduction of long term receivables	2,939	—
	2,787,842	3,828,416
APPLICATION OF WORKING CAPITAL		
Purchase of fixed assets	3,392,314	4,326,680
Repayment of long term debt	120,250	—
Key employee stock purchase plan loans	70,875	—
	3,583,439	4,326,680
(Decrease) in working capital	(795,597)	(498,264)
Working capital, January 1	5,661,175	5,513,944
WORKING CAPITAL, June 30	\$4,865,578	\$5,015,680

NOTE 2:

(a) The Company has recorded deferred taxes for all timing differences in accordance with the "allocation method" adopted by the Company as at January 1, 1974.

(b) The Alberta Royalty Tax Credit has been calculated in accordance with the original announcement by the Alberta Government under its Petroleum Exploration Program for 1975 and subsequent years.

Consolidated

Interim

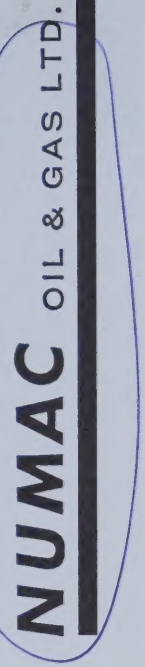
Report

to

Shareholders

SIX MONTHS ENDED
JUNE 30, 1975

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NUMAC OIL & GAS LTD.

TO THE SHAREHOLDERS:

FINANCIAL

Numac's net income for the first six months of 1975 of \$1,255,296 represents an increase of 28.7% over the \$975,158 recorded for the same period in 1974. Net funds from operations amounted to \$2,649,353 (29¢ per share) as compared with the previous year of \$2,093,267 (22.5¢ per share), an increase of 26.6%. The increases were mainly a result of an increased number of wells completed, combined with improved product prices.

The Company calculates that for the six month period, July 1 to December 31, 1975, the \$1.50 per barrel crude oil price increase announced by the Federal government will result in an increase in the Company's net income after tax of forty-five (45) cents per barrel and an increase in the funds provided from operations of ninety-six (96) cents per barrel.

Based on the assumption set out in Note 2 (b), together with the tax changes announced in the June 23, 1975 Federal Budget, the Company calculates that for 1976 it will realize a further increase in its net income after tax of five (5) cents per barrel. However, due to the assumed 1976 reduction in the Alberta Royalty Tax Credit rate from 28% to 25%, the Company calculates that its funds provided from operations will decrease nine (9) cents per barrel, for a net increase in funds provided from operations for 1976 of eighty-seven (87) cents per barrel.

EXPLORATION ACTIVITIES

Numac's Oil and gas exploration program was stepped up significantly during the first six months of the year, as was predicted in our 1974 Annual Report. The Company participated in the drilling of 19 wells in Alberta during that period. Six wells were completed as natural gas wells, one as a conventional oil well and six were abandoned as dry holes. The remaining six wells were drilled on the Company's Surmont acreage. Each well penetrated a thick section of bituminous oil sands, further confirming the magnitude of oil sands reserves underlying these strategic properties, as well as establishing the presence of additional natural gas reserves.

The Company continued to acquire petroleum and natural gas properties during the same period and 21 additional exploratory and development wells are planned for the balance of the year, making a total of at least 40 wells in which the Company will likely participate in the Province of Alberta during the year.

Numac's main exploration thrust is to explore and drill prime natural gas prospects. Exemplifying this policy, a Petroleum and Natural Gas Reservation was purchased with two other companies (Numac - 1/3 interest) in the Rosevear area, northeast of Edson, Alberta. This property is on trend and close to prolific gas discoveries drilled over the past few months and as of the date of this writing a deep test has been commenced by the Numac group. At the same time, the Company has started its multi-well exploratory drilling program in the gas prone Calais area, southwest of Valleyview, Alberta. It is obvious the British Columbia government must improve the net returns accruing to the Oil and Gas Industry to stimulate essential exploration. If it proceeds to do so, Numac will likely undertake exploration work, including drilling, on lands in the northeastern portion of that province.

Since the printing of the Company's 1974 Annual Report, the Unark test well on Numac's Mackenzie Delta property had to be abandoned short of projected depth because of mechanical difficulties, in spite of encouraging tests of natural gas shows. Sun Oil Company Limited has stated it will commence a well projected to reach its objective depth on acreage farmed in from Standard Oil Company of B.C. immediately adjoining Numac and associates' Gary Island Block W-949 in September of this year. The rig will be located on Block W-949 but will be whipstocked over to the S.O.B.C. block to test a structure which appears to extend on to both blocks. Numac will retain a small overriding royalty interest in the earned S.O.B.C. acreage. In addition to the above, Sun's third commitment well under its Agreement covering Numac's Mackenzie Delta interests is expected to be drilled during the 1975-1976 drilling season at a location to be announced.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE SIX MONTHS ENDED JUNE 30, 1975
(with 1974 figures adjusted for comparative purposes)

	1975	1974
INCOME		
Gross operating income -	\$3,966,673	\$2,666,680
Investment income ----	211,542	276,340
Supervision and sundry -	26,523	31,779
Mackenzie Delta (Note 1)	200,600	—
	<u>4,404,738</u>	<u>2,974,799</u>
EXPENSES		
Cost of sales -----	137,666	26,516
Operating expenses ----	1,031,090	560,283
General and administrative -----	199,905	136,526
Interest on long-term debt -----	496,918	80,647
Interest other -----	34,766	77,560
Provision for depletion, depreciation and amortization -----	473,541	447,127
	<u>2,373,886</u>	<u>1,328,659</u>
NET INCOME BEFORE THE UNDERNOTED --	<u>2,030,852</u>	<u>1,646,140</u>
Gain on sale of equipment -----	32,254	—
	<u>2,063,106</u>	<u>1,646,140</u>
NET INCOME BEFORE INCOME TAX (Note 2)	<u>2,063,106</u>	<u>1,646,140</u>
Current income tax ----	(144,960)	—
Deferred income tax ----	947,606	663,000
Total -----	<u>802,646</u>	<u>663,000</u>
NET INCOME BEFORE MINORITY INTEREST -	<u>1,260,460</u>	<u>983,140</u>
Income applicable to minority interest ----	5,164	7,982
	<u>1,255,296</u>	<u>975,158</u>
NET INCOME FOR THE PERIOD -----	<u>1,255,296</u>	<u>975,158</u>
Retained earnings, January 1 -----	8,176,032	6,283,916
	<u>\$9,431,328</u>	<u>\$7,259,074</u>
RETAINED EARNINGS, June 30 -----	<u>\$9,431,328</u>	<u>\$7,259,074</u>
NET INCOME, per share --	<u>29.0¢</u>	<u>22.5¢</u>

NOTE 1:

In accordance with Company's policy relating to the full cost method of accounting, the cost of the Company's interest in the Mackenzie Delta properties is included in the Canadian Frontier Cost Centre which has an accumulated balance at December 31, 1974 and June 30, 1975 of a nominal \$1.00. Therefore, all revenue received relating to the Company's interest in the properties is included as income in these financial statements.

W. S. McGregor
President

Edmonton, Alberta
August 7, 1975

NUMAC OIL & GAS LTD

1975 Annual Report

Operating Highlights

- Alberta and British Columbia Gas Discoveries Pages 4 to 7
- Garry Island Discovery Page 8
- Substantial Increase in Gas Reserves Page 10

Financial Highlights

	Increase (Decrease)	1975	** 1974
Gross Income, net after royalties	30.2%	\$ 8,698,819	\$ 6,680,605
Net funds Generated from Operations	23.8%	4,998,160	4,036,653
Net Income	23.9%	2,345,014	1,892,116
Working Capital	(42.4%)	3,114,557	5,407,062
Fixed Assets, Net	23.7%	33,445,726	27,028,485
Number of Shares Outstanding	.2%	4,335,566	4,325,566
* Per Share:			
Net funds generated from operations		\$1.15	\$.93
Net income		.54	.44

* Based on weighted average number of shares outstanding

** Reclassified for comparative purposes

NUMAC OIL & GAS LTD., 1975 Annual Report

Numac Oil & Gas Ltd. was incorporated under the laws of the Province of Alberta on March 16, 1963.
The annual meeting of shareholders will be held at 9:00 a.m., June 23, 1976, in the Hotel Macdonald, Edmonton, Alberta.

Board of Directors

RALPH A. BARD Jr.,
Executive
Chicago, Illinois

LAWRENCE L. BELL,
Retired
Toronto, Ontario

HADLEY CASE,
Chairman, Felmont Oil Corporation
New York, N.Y.

ALEXANDER N. MacIVER,
Barrister & Solicitor
Edmonton, Alberta

STEWART D. McGREGOR,
Barrister & Solicitor
Edmonton, Alberta

WILLIAM S. McGREGOR,
President
Numac Oil & Gas Ltd.
Edmonton, Alberta

JACK W. ROBBINS,
Senior Vice-President and
General Counsel, Pitcairn Incorporated
Jenkintown, Penn.

MARSHAL STEARNS,
Chairman of the Board,
C.J. Hodgson, Richardson, Inc.
Toronto, Ontario

LLOYD F. STEVENS,
Executive Vice-President,
Allpak Products Limited
London, Ontario

Officers

WILLIAM S. McGREGOR,
President and Managing Director

DONALD F. BAKER,
Vice-President, Engineering

C. R. S. MONTGOMERY,
Vice-President and Secretary

RONALD W. SPRINGER,
Vice-President and Treasurer

WILFRED J. WILSON,
Vice-President, Exploration

ALEXANDER N. MacIVER,
Assistant Secretary

Head Office

9915 - 108 Street, Petroleum Plaza - South Tower,
Edmonton, Alberta

Registrars and Transfer Agents

The Royal Trust Company, Edmonton, Montreal, Toronto
The Canadian Bank of Commerce Trust Company, New York

Auditors

Winspear Higgins Stevenson & Co., Edmonton, Alberta

Solicitors

Jackson, Arlette and MacIver, Edmonton, Alberta

Listing

Toronto Stock Exchange
American Stock Exchange

President's Report to Shareholders

For Numac, 1975 was the most aggressive year of exploration for oil and gas since incorporation. The Company drilled forty-five wells, of which twenty-seven were successful.

Financial results reflected the Company's continuing growth with gross revenues totalling \$8,698,819, an increase of 30.2%. Net funds generated from operations increased 23.8% to \$4,998,160, up from \$4,036,653 for 1974. Net income was up 23.9% to \$2,345,014 compared with \$1,892,116 in 1974.

Oil and gas exploration and development expenditures increased from \$3,262,899 in 1974 to \$7,088,660 in 1975.

The Company discovered two and one-half times as much oil as it sold during 1975 and discoveries more than doubled proven reserves of gas. The recent gas discoveries in Alberta and British Columbia will improve cash flow substantially as these new fields are connected to main transmission lines during 1976 and 1977.

Exploration and development programs planned for 1976 are expected to equal, if not surpass, last year's banner year. In addition, increases are anticipated in the wellhead prices of oil and gas in 1976 and 1977. These expected increases have encouraged management to explore for and develop new reserves of commercial value, since it is obvious that gas and oil will be in short supply in Canada and the United States before the Nineteen Eighties. Canada presently produces less oil than its market demands and faces a deficit on oil and gas trade of \$1.7 billion in 1980 — climbing to \$5 billion in 1985. What is required is fair and reasonable government taxation and other policies so that industry and the investing public will be encouraged to team up to develop the reserves required for Canada's self-sufficiency. Also required is an increase of oil prices to near world levels. This would avoid subsidies from the taxpayers and would motivate Canadians to use less fuel, again helping our self-sufficiency, and thus further improve our balance of trade.

A significant dual-zone oil and gas well was completed by Sun Oil Company in the Mackenzie Delta in which Numac has a small gross overriding royalty, and further drilling by Sun on Numac/Bow Valley joint interest lands is scheduled in 1976 on properties where Numac's interest is a carried 20%.

To date Numac has drilled a total of twenty-one wells on its 119,000 acre Surmont property, south of Fort McMurray. All wells cored through rich thicknesses of bituminous oil sands and in addition some encountered large volumes of gas above the oil sands. Numac has a permit from the Alberta Energy Resources Conservation Board for a pilot In-Situ project on the property and discussions are being held with others to assist in such a development. Outside consultants report this 100%-owned Numac property to have in excess of 20 billion barrels of oil in place and is considered by management to have excellent potential for the future.

Further information on some of the new discoveries and other exploration programs are covered in greater detail within the body of this report.

The Interprovincial Pipe Line extension from Ontario to Montreal will be on stream this summer with throughput expected to reach 250,000 barrels per day before year end. This new market will increase crude oil production from Alberta, and Numac's oil sales will also increase because of this new outlet.

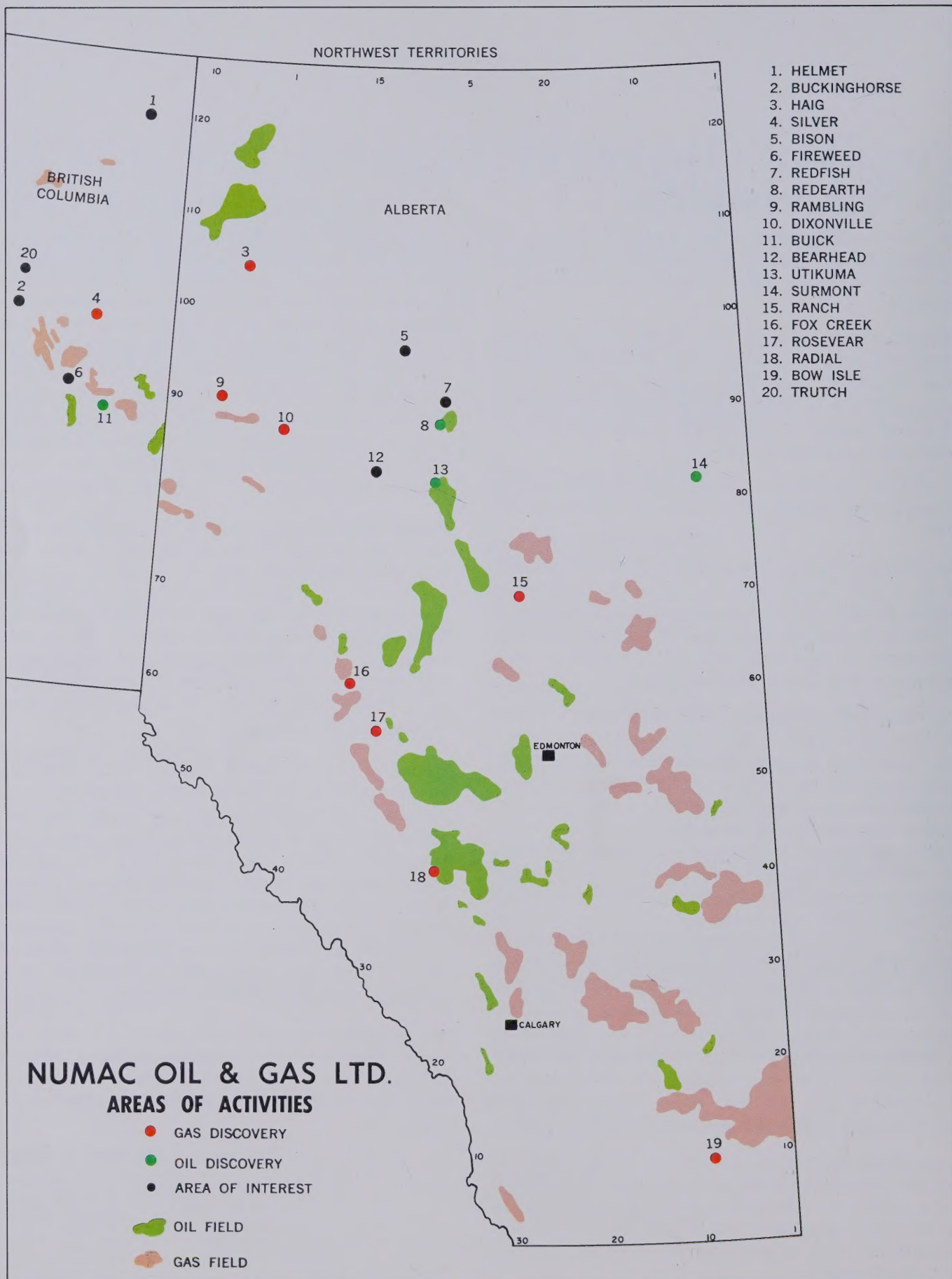
Finally, it is to be hoped that the various hearings on the subject of a Mackenzie Valley gas pipeline can be brought to early conclusion, and fair arrangements for all concerned made with the natives in the area so that a large scale economic line bringing North Slope and Mackenzie Delta gas to the United States and Canadian markets may be commenced without further delay. Through co-operation on a large scale line, transmission costs would be reduced, producers would net more at the wellhead, and more importantly, the consumer in both countries would pay less for the products.

The progress recorded in this report is a direct result of the diligence of the Company's dedicated staff and it is my pleasure on behalf of the Board of Directors to thank them for contributing greatly to the results presented herein.

On behalf of the Board of Directors

W. S. McShannon
President

March 15, 1976



Oil, Gas and Mineral Exploration

WESTERN CANADIAN SEDIMENTARY BASIN

The 1975 exploration program for Numac was both exciting and rewarding. The prospects ranged in depth down to 10,800 feet and covered an area from southern Alberta to northeastern British Columbia.

The Company participated in forty-five wells of which sixteen were gas, four oil, one oil and gas, six bituminous oil wells and eighteen dry.

The new gas wells will add considerably to cash flow by the end of 1976 and quite dramatically in 1977.

Numac has an interest in four Gething gas wells in the DIXONVILLE field that should go on stream in 1976 and participated in drilling three gas wells in the RADIAL area that will produce gas from the Cardium Sand commencing in late 1976. The FOX CREEK area has also been a rewarding area as three Cadomin gas wells containing extensive reserves were drilled in 1975. Other important gas discoveries were at RAMBLING, HAIG, ROSEVEAR, MUSKEG and BOW ISLAND. These areas are all located in Alberta.

Numac drilled two Granite Wash oil wells at UTIKUMA and one at RED EARTH that will lead to further development drilling.

The Company purchased land and drilled two excellent Bluesky gas wells in the SILVER area of British Columbia. Management expects to develop this area in 1976-1977 and as a result should prove up sizeable reserves. Numac also participated in drilling an oil well on the south edge of the BUICK CREEK gas field and development drilling should take place in 1976.

In 1976 the exploration program should at least equal the 1975 program. Deep exploratory wells, over 10,000 feet, should be drilled in the ROSEVEAR and FOX CREEK areas. Further development of the Cadomin at 7,000 feet will also be carried out at Fox Creek. Wells will also be drilled in the areas of last year's gas discoveries in the RAMBLING and HAIG areas and shallow wells are scheduled in the BISON LAKE area. Exploration wells will be drilled for Granite Wash oil in the REDFISH area, north of Red Earth, and drilling will be carried out in the BEARHEAD area that lies west of Red Earth.

Numac also plans extensive exploration in British Columbia in areas such as PEGGO, JUNIOR and HELMET for gas in the Devonian Slave Point. Wells exploring for gas will also be drilled in the FIREWEED, TRUTCH BUCKINGHORSE, SILVER and TOMMY LAKES areas. These are gas prospects in Cretaceous and Triassic formations.

NORTH SEA AND CELTIC SEA

The Company has a direct participating interest of 11.25% in Block 9/4 in the British sector of the North Sea and an 8.17% interest in Block 103/27 in the British portion of the Celtic Sea.

Block 9/4 is located seven miles west of the Frigg gas field and sixteen miles northeast of the Beryl oilfield. Hamilton Bros. have drilled gas wells on Block 9/8 which corners Numac's Block 9/4 to the southwest. The seismic on this very geologically complex Block may be reworked for further evaluation.

There are no immediate drilling plans for Block 103/27 in the Celtic Sea.

NUMAC LAND HOLDINGS

Petroleum and Natural Gas holdings as of December 31, 1975 compared with December 31, 1974 were:

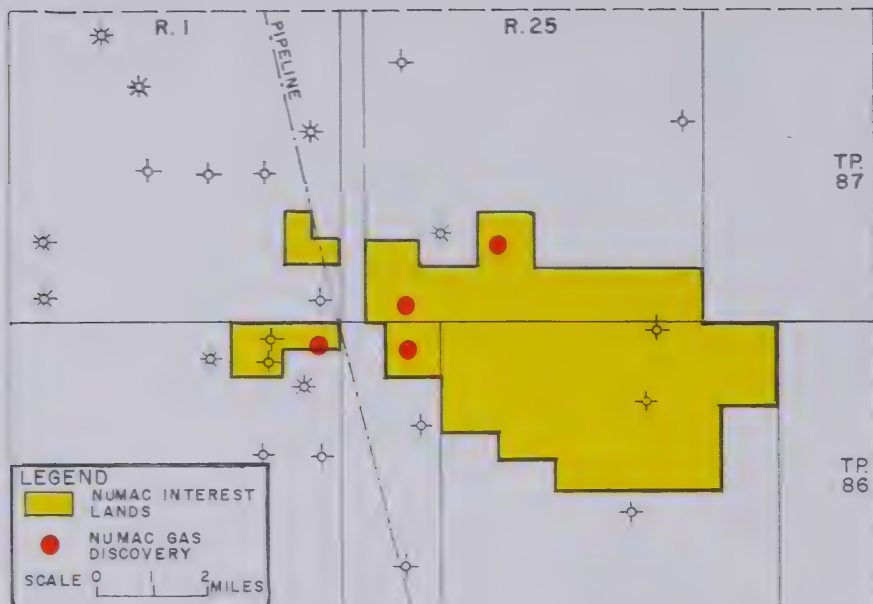
	1975		1974	
	Gross	Net	Gross	Net
Alberta	892,536	356,848	624,087	295,425
British Columbia	357,747	139,843	292,827	102,612
*Other areas	385,762	11,012	392,478	13,169
	<u>1,636,045</u>	<u>507,703</u>	<u>1,309,392</u>	<u>411,206</u>

(* Numac's interest in the Mackenzie Delta is included in the gross figures, but not in the net figures due to the nature of the interest.)

MINERAL EXPLORATION

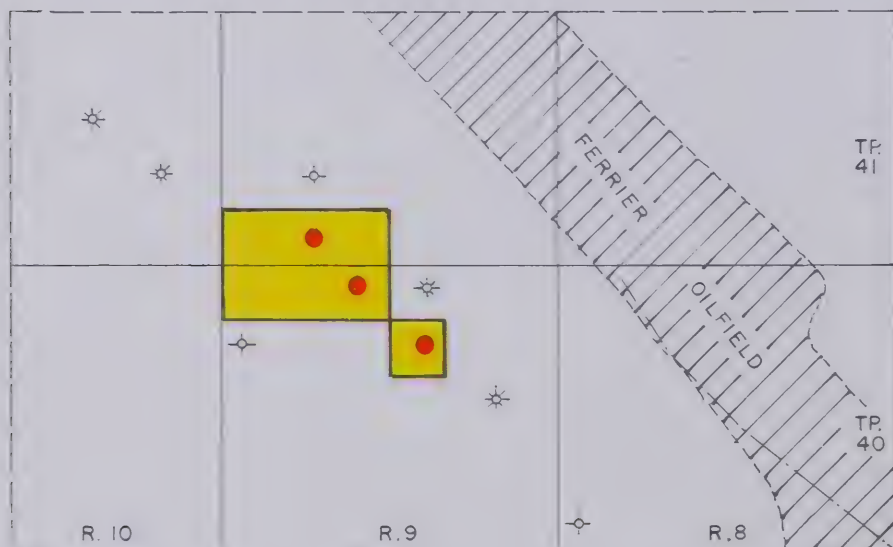
Numac's 1975 mining exploration program has been concentrated mainly in British Columbia, the Northwest Territories and the Yukon. The Company has a 24.6% interest in an estimated 100-million-ton thermal coal deposit at Princeton, British Columbia, and also participated in drilling and exploration for gold on a 50/50 basis with Precambrian Shield Resources Ltd. on the Ladner Creek property at Hope, British Columbia. Consideration is being given to carrying out an underground bulk test in 1976. Drill-indicated and possible reserves in the Upper and Lower Idaho zones are estimated at 1,368,500 tons grading 0.163 ounces of gold per ton.

The uranium properties in Saskatchewan are being explored with participants, Amok Ltd. and Imperial Oil Limited. The Cluff Lake property is in the immediate vicinity of the Amok plant being established in this area.



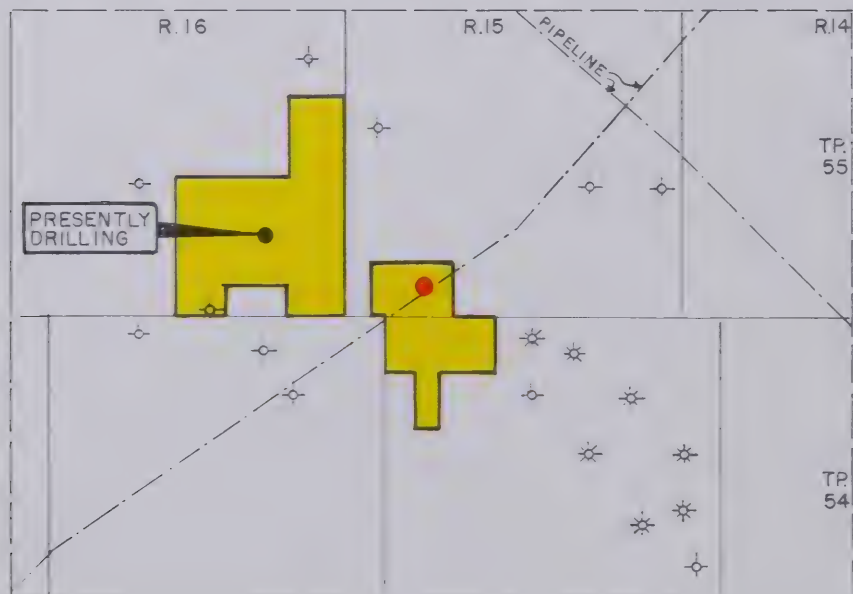
DIXONVILLE

In this very interesting gas-prone area, Numac has interests ranging from 33⅓% to 100% in 16,480 acres. To date the Company has participated in four gas discoveries from the Bluesky and Gething formations with pay thicknesses up to 52 feet. Further follow-up drilling will be conducted this year and a plant will be built with a capacity of eight to twelve MMCFD to handle gas from the area. This plant should be on stream during the third quarter of 1976.



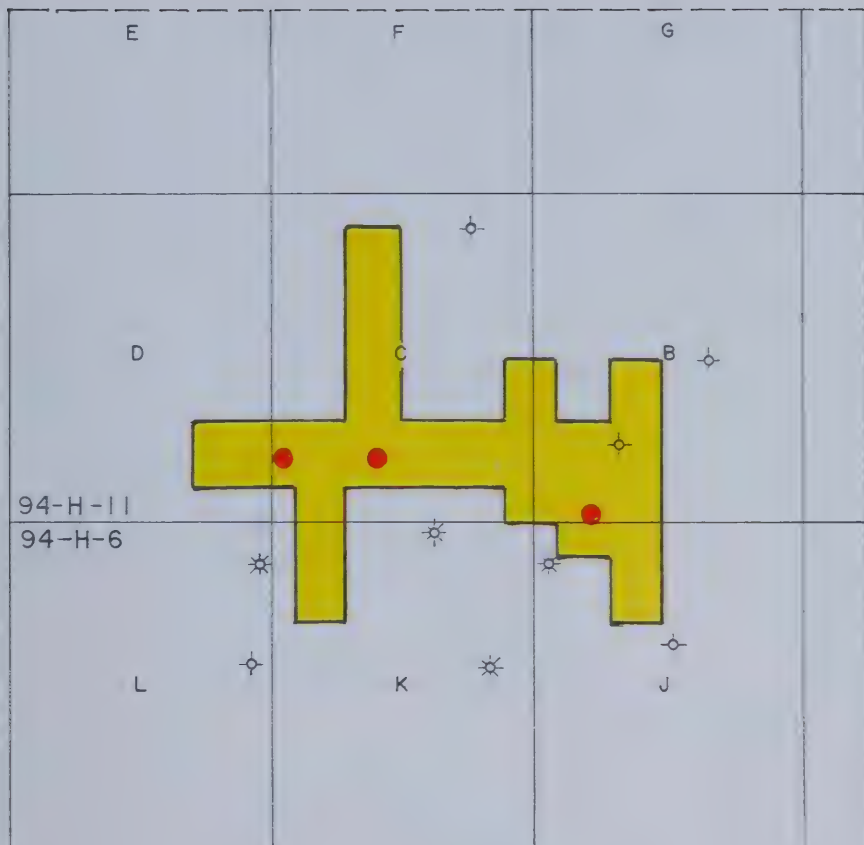
RADIAL

The Company has interests ranging from 25% to 50% in 4,480 acres in the Radial area, four miles west of the large Ferrier field. Three gas discoveries have been located on the acreage and pay thicknesses up to 20 feet have been encountered in the Cardium sandstone. Gas production from the area should commence late in 1976.



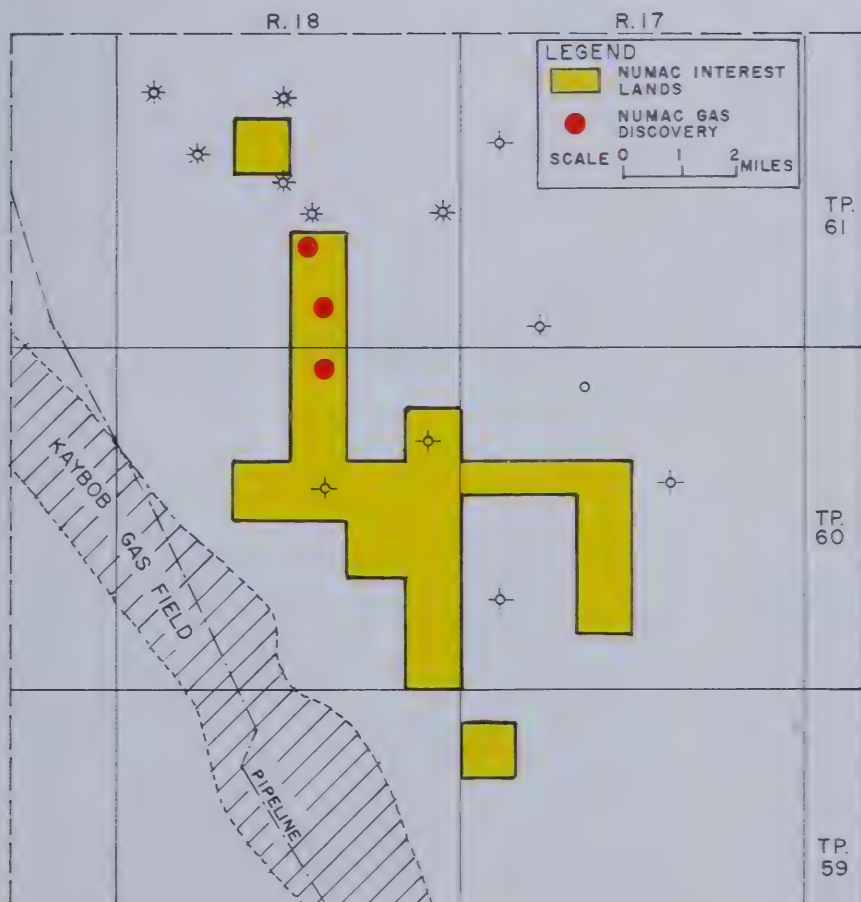
ROSEVEAR

The Rosevear area in central Alberta is presently one of the most promising areas for gas exploration in Western Canada. Several Beaverhill Lake gas discoveries with immense reserves and productivity are located in the immediate area. Numac has interests in the Beaverhill Lake reef rights in 8,000 acres, and along with partners is presently participating in a deep reef test on a pronounced seismic "bright spot".



SILVER

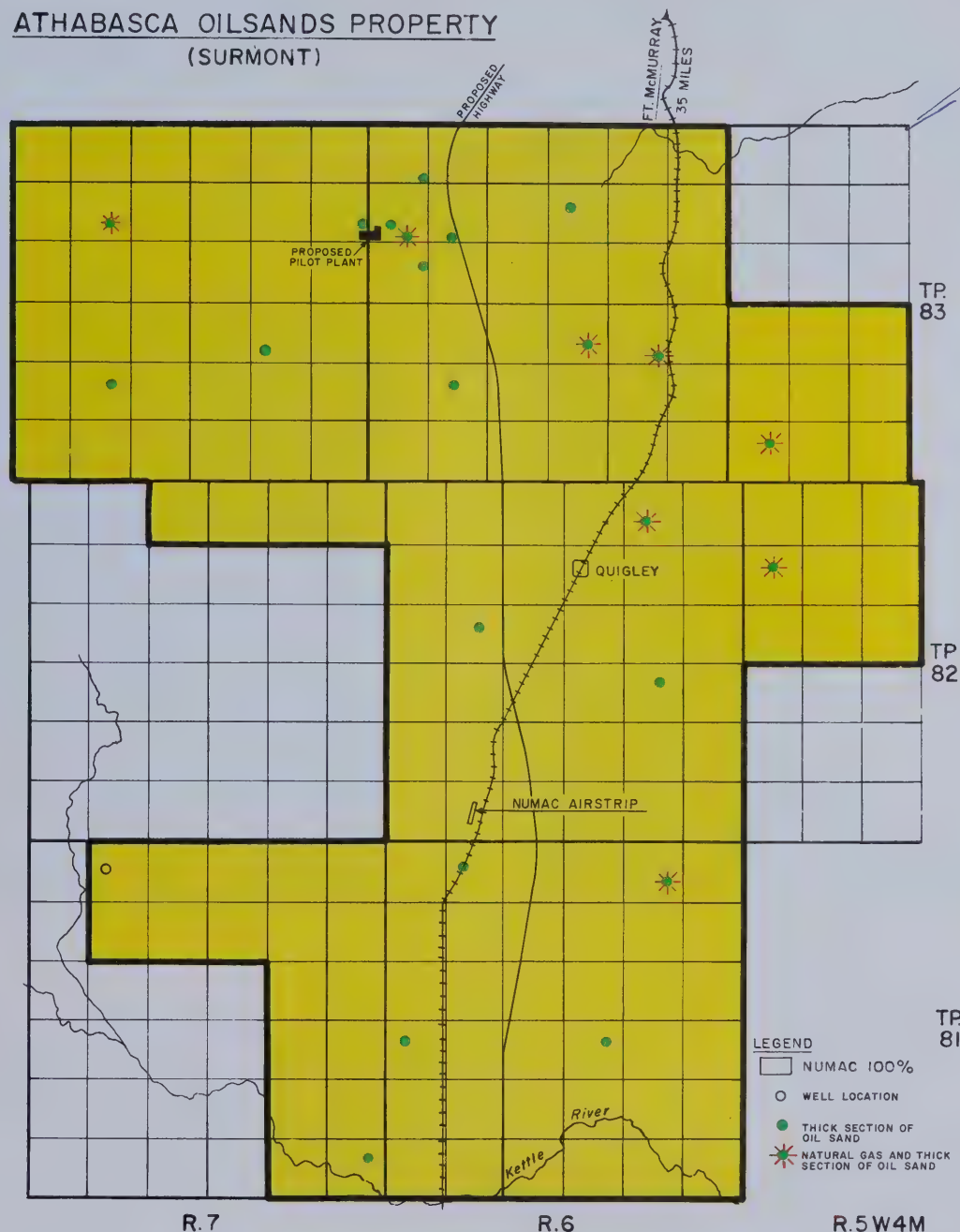
The Silver area of northeastern British Columbia is the scene of a recently developing gas play in the Bluesky-Gething formation. Numac has a major role in this development with a 50% interest in 13,398 acres. To date the Company has participated in three gas discoveries with pay thicknesses up to 34 feet. Several additional exploratory and development wells may be expected on the Company's acreage in 1976.



FOX CREEK

Numac feels fortunate to be able to be part of this gas play which is as exciting as any in Alberta for the past several years. With interests of up to 50% in 12,800 acres, the Company has been a partner in the drilling of three Cadomin gas discoveries containing net pay zones up to 55 feet thick. This area is also prospective for Triassic and Bluesky gas. Several large Beaverhill Lake discoveries have been made immediately north of Numac's land holdings and it is expected that this play will extend onto the Company's acreage. Follow-up drilling for both the shallow and deep horizons is planned for 1976 as well as the commencement of gas production from the area.

ATHABASCA OILSANDS PROPERTY (SURMONT)



ATHABASCA BITUMINOUS OIL SANDS, ALBERTA

Numac's 119,000-acre Surmont property located 35 miles south of Fort McMurray has 20 billion barrels of oil in place. The property also has 30 billion cubic feet of proven gas in place, plus probable reserves which Numac believes to be extensive.

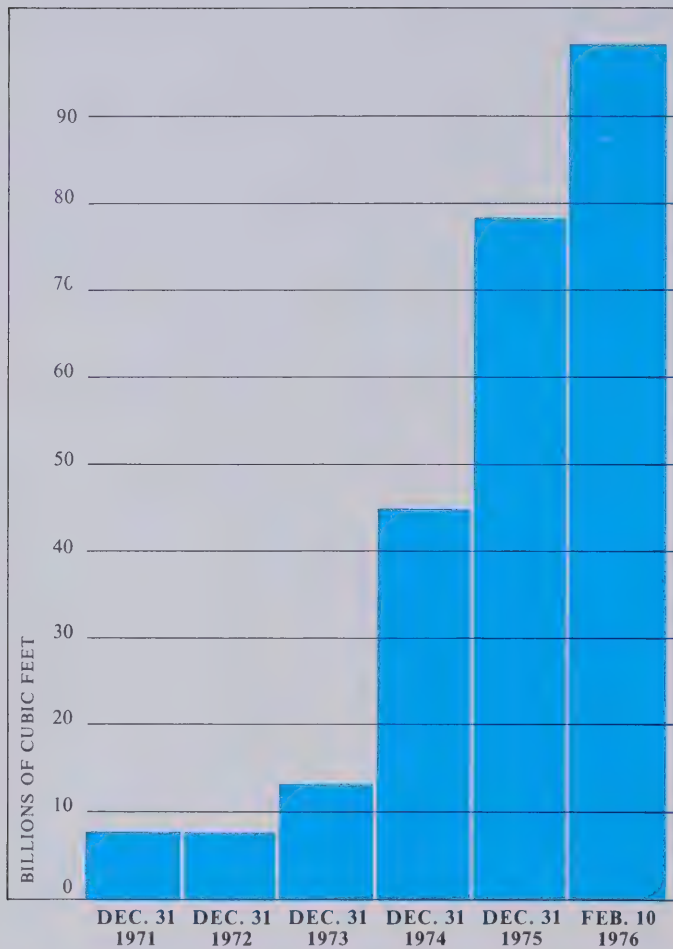
Twenty-one wells were drilled on the property of which five were closely spaced to establish a pilot plant location. The Alberta Research Council evaluated these wells and concluded that the property is one of the best locations in the Athabasca Tar Sands area to establish an experimental In-Situ pilot plant.

The Alberta government has established a \$100 million

fund and the federal government a \$64 million fund to assist in discovering an economical means of recovering oil by an In-Situ method. Numac's management has applied for assistance from the Alberta Fund. The Research Council may be a joint operator on this project if funds are awarded.

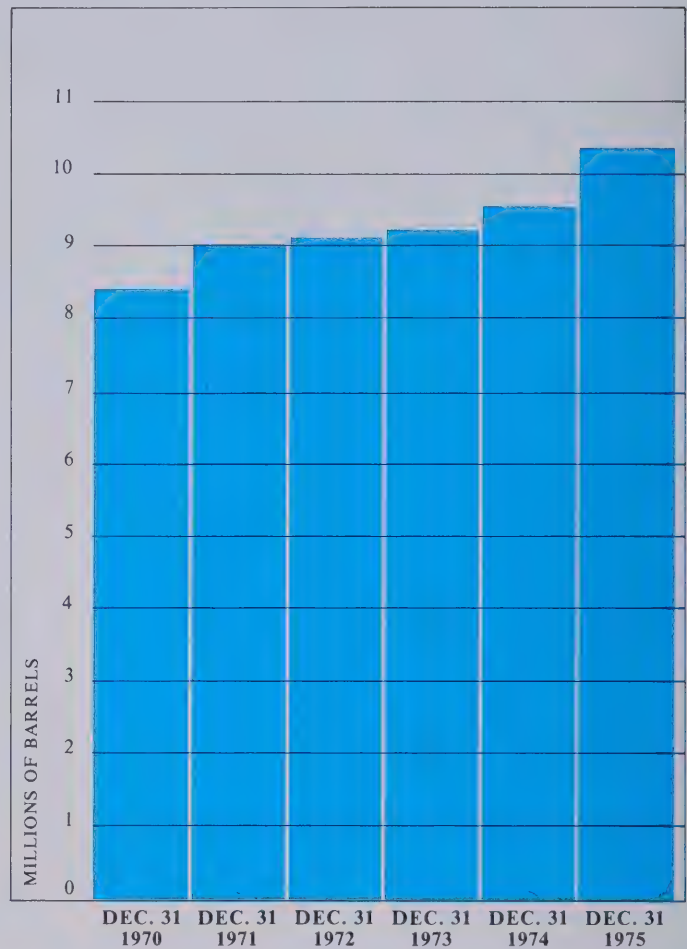
Provided a commercial recovery of 30% is attained, the Surmont property could support four In-Situ developments of 125,000 barrels of oil production per day each over a 35-year life. Numac management considers this heavy oil property to have excellent potential over the long term and since it is 100% owned, it is one of Numac's most valuable assets.

Oil & Gas Reserves



Net Proven Natural Gas Reserves before Crown Royalty

The Company's accelerated exploration program during 1975 in gas prone areas has substantially increased gas reserves. Proven reserves are those contained in drilling spacing units actually drilled. Planned in-fill and step-out drilling will add very significantly to the total during 1976 and into 1977. The graph has been extended to include the first six weeks of 1976 to show that the trend is continuing.



Net Proven Crude Reserves before Crown Royalty

The significant point of the net proven crude reserves graph is that a continuing increase has been established even though the industry has had a dearth of oil discoveries during the past few years. Company net oil production before royalty amounted to approximately 550,000 barrels during 1975 but the Company was able to replace that amount and add 700,000 barrels to its reserves.

Other Company Activities

OILFIELD CONSTRUCTION

The oilfield construction division of the Company is primarily engaged in road building and other oilfield activities, such as lease preparation, cleanup and restorations and drilling rig service and island building in the Mackenzie Delta. The majority of the revenue from this operation originates from the Mackenzie Delta and to a lesser degree from Alberta. This division has had an enviable twenty-five year history of success in this type of work.

REAL ESTATE

Numac has participated in real estate activities in the Edmonton area of Alberta. It owns 60% of the outstanding shares of Nu-Alta Developments Ltd., which in 1974 completed Petroleum Plaza, an office complex consisting of twin, interconnected, 14-storey towers, located in Edmonton. The complex is fully leased. Numac has acquired certain other real estate lands in the Edmonton area which management believes will be strategically located in relation to the future development of warehousing, storage and assembly yards required for the development of the Mackenzie Delta and Athabasca Bituminous Oil Sands.

NUMAC OIL & GAS LTD.
and Subsidiary Companies
Consolidated
Statement of Income
Years Ending December 31, 1975 and 1974

	1975	1974*
INCOME		
Gross operating income	\$ 7,975,152	\$ 6,105,454
Investment income	349,944	346,602
Gain on sale of securities	43,810	133,894
Supervision and sundry	83,901	42,416
Mackenzie Delta income (Note 1(b))	200,000	—
Gain on sale of fixed assets	46,012	52,239
	<u>8,698,819</u>	<u>6,680,605</u>
EXPENSES		
Cost of sales	305,226	213,754
Operating expenses	2,201,280	1,532,730
General and administrative expenses	419,998	321,670
Interest on long-term debt	993,717	700,784
Interest — other	116,040	75,359
Provision for depletion, depreciation and amortization	932,376	994,235
	<u>4,968,637</u>	<u>3,838,532</u>
NET INCOME BEFORE INCOME TAXES	<u>3,730,182</u>	<u>2,842,073</u>
INCOME TAXES (Note 3)		
Current (Provincial royalty tax credit)	(381,614)	(252,584)
Deferred	1,734,259	1,176,729
	<u>1,352,645</u>	<u>924,145</u>
NET INCOME BEFORE MINORITY INTEREST	<u>2,377,537</u>	<u>1,917,928</u>
Income applicable to minority interest	32,523	25,812
NET INCOME FOR THE YEAR	<u>\$ 2,345,014</u>	<u>\$ 1,892,116</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEARS ENDING DECEMBER 31, 1975 AND 1974

RETAINED EARNINGS , beginning of year		
As previously stated	\$ 8,176,032	\$ 9,924,307
Retroactive adoption of income tax allocation method of accounting	—	3,640,391
	<u>8,176,032</u>	<u>6,283,916</u>
As restated	2,345,014	1,892,116
Add net income for the year	<u>\$10,521,046</u>	<u>\$ 8,176,032</u>
RETAINED EARNINGS , end of year		

EARNINGS PER SHARE
(BASED ON WEIGHTED AVERAGE OF OUTSTANDING SHARES)
YEARS ENDING DECEMBER 31, 1975 AND 1974

NET INCOME FOR THE YEAR	<u>\$ 0.54</u>	<u>\$ 0.44</u>
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The accompanying notes are an integral part of the financial statements.

* Reclassified for comparative purposes.

NUMAC OIL & GAS LTD.
and Subsidiary Companies
Consolidated Balance Sheet
As at December 31, 1975 and 1974

	ASSETS	1975	1974*
CURRENT ASSETS			
Cash		\$ 204,352	\$ 234,604
Marketable securities, at cost (Market value \$4,965,244; 1974 \$4,231,834)		5,175,774	5,088,910
Accounts receivable		1,626,581	1,207,126
Provincial royalty tax credit		381,614	252,584
Inventories — at lower of cost or net realizable value		442,989	166,348
Prepaid expenses and deposits		26,643	214,161
		<u>\$ 7,857,953</u>	<u>\$ 7,163,733</u>
INVESTMENTS AND LONG TERM RECEIVABLES (Note 5)		<u>1,411,938</u>	<u>1,324,081</u>
FIXED ASSETS — at cost (Note 1)			
Buildings and land		11,095,371	11,104,905
Oil and gas properties, mining and research costs		22,980,936	16,352,328
Production and other equipment		5,134,561	4,520,311
		<u>39,210,868</u>	<u>31,977,544</u>
Less: accumulated depletion, depreciation and amortization		5,765,142	4,949,059
		<u>33,445,726</u>	<u>27,028,485</u>
OTHER ASSETS			
Deferred costs, less amortization		15,333	28,333
		<u>\$42,730,950</u>	<u>\$35,544,632</u>

ON BEHALF OF THE BOARD

W. S. M. Gregor

Director

G. I. MacLennan

Director

The accompanying notes are an integral part of the financial statements.

* Reclassified for comparative purposes.

	LIABILITIES	1975	1974*
CURRENT LIABILITIES			
Bank loan — secured		\$ 1,900,000	\$ 275,000
Accounts payable and accruals		2,428,012	1,255,891
Current portion of long term debt		258,620	225,780
Deferred Income		156,764	—
		4,743,396	1,756,671
LONG TERM DEBT (Note 2)		9,498,782	9,109,610
DEFERRED INCOME TAX (Note 3)		6,551,379	4,817,120
MINORITY INTEREST		440,735	808,212
		21,234,292	16,491,613
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (Note 5)			
Authorized			
5,000,000 shares without nominal or par value			
Issued			
4,335,566 (1974 — 4,325,566)		10,975,612	10,876,987
RETAINED EARNINGS		10,521,046	8,176,032
		21,496,658	19,053,019
		\$42,730,950	\$35,544,632

Auditors' Report

To the Shareholders of
Numac Oil & Gas Ltd.

We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. and subsidiary companies as at December 31, 1975 and 1974 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied, on a basis consistent with that of the preceding year.

EDMONTON, Alberta
March 8, 1976

WINSPEAR HIGGINS STEVENSON & CO.
Chartered Accountants

NUMAC OIL & GAS LTD.

and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

Years Ending December 31, 1975 and 1974

	1975	1974*
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net income for the year	\$ 2,345,014	\$ 1,892,116
Add items not requiring an outlay of funds:		
Depletion, depreciation and amortization	932,376	994,235
Deferred income tax	1,734,259	1,176,729
Minority interest	32,523	25,812
Gain on sale of fixed assets	(46,012)	(52,239)
Funds provided from operations	4,998,160	4,036,653
Proceeds from sale of fixed assets	142,884	151,323
Additional long-term debt	757,792	2,414,430
Proceeds from sale of treasury stock under Key Employee Stock Purchase Plan	98,625	—
Decrease in investments and long-term receivables	10,768	1,428
	<u>6,008,229</u>	<u>6,603,834</u>
FINANCIAL RESOURCES WERE USED FOR:		
Purchase of fixed assets:		
Oil and gas properties, mining and research costs	6,679,317	3,266,902
Real estate, buildings and equipment	754,172	2,544,483
Total	<u>7,433,489</u>	<u>5,811,385</u>
Reduction of long-term debt	368,620	684,055
Repayment of minority shareholders' loans	400,000	—
Additional Key Employee Stock Purchase Plan loans	98,625	—
Increase in deferred costs	—	35,936
	<u>8,300,734</u>	<u>6,531,376</u>
(DECREASE) INCREASE IN WORKING CAPITAL	(2,292,505)	72,458
Working Capital, beginning of year	<u>5,407,062</u>	<u>5,334,604</u>
WORKING CAPITAL, END OF YEAR	\$ 3,114,557	\$ 5,407,062

The accompanying notes are an integral part of the financial statements.

* Reclassified for comparative purposes.

NUMAC OIL & GAS LTD. and Subsidiary Companies

Notes to Consolidated Financial Statements

Years Ending December 31, 1975 and 1974

NOTE 1 — ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock.

The Company's subsidiary, Nu-Alta Developments Ltd. completed its Edmonton office tower complex on May 31, 1974 and therefore the consolidated statement of income includes seven months income and expense for 1974 and a full year's income and expense for 1975. The consolidated statement of changes in financial position and balance sheet includes capital transactions for the full year for 1974 and 1975.

(b) Full Cost Method of Accounting

The Company and its subsidiaries follow the full cost method of accounting for oil and gas operations, whereby all costs relative to the exploration for and development of such reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead related to exploration activities. These costs are reduced by the proceeds from the sale of oil and gas properties and also by government drilling and seismic grants and the net costs are accumulated in cost centres as follows:

- (i) North America — Canada (excluding Frontier Areas and Athabasca Oil Sands) and the United States,
- (ii) Canadian Frontier
- (iii) Athabasca Oil Sands
- (iv) Outside North America

Costs accumulated in the North America cost centre are depleted using the composite unit-of-production method based upon estimated proven reserves of oil and natural gas, net before Crown royalty. The unit-of-production cost, net before Crown royalty, per barrel of crude oil and natural gas equivalent in 1975 and 1974 was \$0.65 and \$0.77 respectively.

The Canadian Frontier cost centre, as at December 31, 1975 and 1974 consists solely of the Company's net carried interest in the Mackenzie Delta, N.W.T. which is recorded in the accounts at a nominal \$1.00. Accordingly, all revenue received relating to the Company's interest in these properties is recorded as income.

Exploration and similar costs relating to the Athabasca Oil Sands have been capitalized in a separate cost centre and the related oil sand reserves have been excluded from conventional North American oil and gas reserves.

Costs and expenses of acquiring oil and gas interests outside of North America have been capitalized pending the outcome of exploration and related activities in each area of interest. It is expected that such costs will be depleted on the composite unit-of-production if sufficient reserves are developed.

(c) Mining

Acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless a project is abandoned. Revenue from farmout arrangements of mining properties is not taken into income unless the proceeds exceed the total project cost.

(d) Canadian Arctic Gas Study Group

Costs incurred in connection with the Company's participation in the Canadian Arctic Gas Study Group have been capitalized. The eventual method of disposition of these costs will be established upon determination of the outcome of the study and also the outcome of the National Energy Board's hearings presently in progress.

(e) Depreciation and Amortization

Depreciation of earth moving equipment, automotive equipment, trailers, camps, shop machinery, furniture and fixtures is calculated on a straight-line basis at rates varying from 10% to 20%; production lease equipment is by the straight-line method at 7%; and real estate buildings on the sinking fund method at 5% over a term of 40 years.

Costs and expenses of acquiring oil and gas interests outside of North America, prior to the development of sufficient reserves to deplete on the composite unit-of-production method, are amortized at an annual rate of 10%.

(f) Income Taxes

The Company follows the tax allocation method of accounting for income taxes. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are deferred by claiming capital cost allowances and expensing exploration and development costs in excess of the depreciation and depletion provisions reflected in the financial statements.

NOTE 2 — LONG-TERM DEBT

The consolidated long-term debt relates to and is secured by specific real estate properties and consists of the following:

	1975	1974*
Numac Oil & Gas Ltd. — parent		
8% mortgage due January 15, 1979	\$ 300,000	\$ 375,000
8% mortgage due December 1, 1978	87,360	116,480
Nu-Alta Developments Ltd. — subsidiary		
1¼ % above the 180 day Inter-Bank Euro-Dollar Offer rate in U.S. funds fully hedged, due December, 1982 and repayable without penalty (Can. Funds)	9,370,042	8,843,910
	<u>9,757,402</u>	<u>9,335,390</u>
Less Current Portion	258,620	225,780
	<u>\$9,498,782</u>	<u>\$9,109,610</u>

* Reclassified for comparative purposes

The aggregate amount of maturities of long-term debt in each of the five years subsequent to December 31, 1975 are as follows:

	<i>Canadian Funds</i>
1976	\$258,620
1977	\$310,120
1978	\$361,620
1979	\$487,000
1980	\$463,500

NOTE 3 — INCOME TAXES

The Company policy for accounting for income taxes is set out in Note 1(f).

At December 31, 1975 a subsidiary of the Company had an accumulated loss carry-forward totalling \$1,655,719, resulting from claiming capital cost allowance, interest and operating expenses for tax in excess of book expenses. The loss carry-forward expires as follows:

1976	\$ 16,768
1977	291,542
1978	782,976
1979	531,315
1980	33,118
	<u>\$1,655,719</u>

NOTE 4 — GOVERNMENT CONTROLS

The government of Canada's Anti-Inflation legislation, effective October 14, 1975 places certain restrictions on the distribution of the Company's retained earnings.

NOTE 5 — SHARE CAPITAL

Shares issued during 1975 and 1974 were as follows:

	1975	1974
Under the Stock Purchase Plan for \$98,625 cash	10,000	—
Shares reserved under the Stock Purchase Plan at December 31	<u>0</u>	<u>10,000</u>

Under the Stock Purchase Plan, the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to key employees of shares of the Company's capital stock at the average sale price of the Company's shares on the day immediately preceding the transaction. During 1975, 10,000 shares were sold to the Trustee and resold to employees under the Plan at prices ranging from \$9.25 to \$10.12 per share.

At December 31, 1975, \$1,342,775 was receivable by the Company (\$1,244,150 at December 31, 1974) under the Plan and is included in "investment and long-term receivables".

NOTE 6 — REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

In accordance with the provisions of the Companies Act (Alberta), it is reported that the remuneration paid to the senior officers of the Company in 1975 amounted to \$231,699 (1974 - \$219,794) and directors' fees amounted to \$4,500 (1974 - \$4,500).

NUMAC OIL & GAS LTD. and Subsidiary Companies

FIVE YEAR FINANCIAL SUMMARY

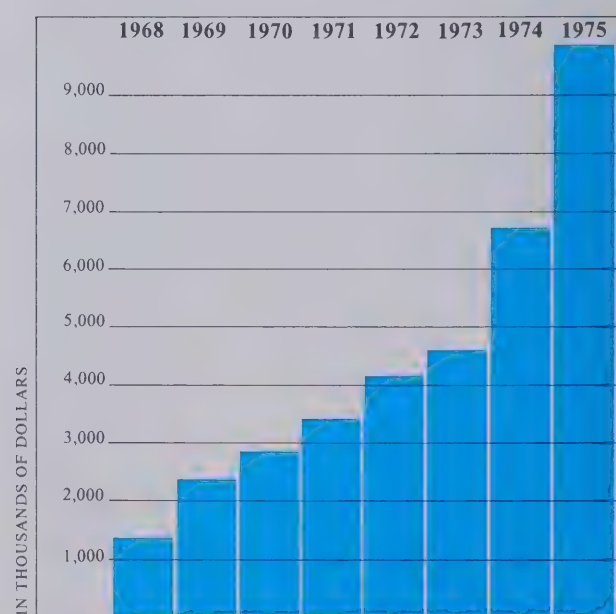
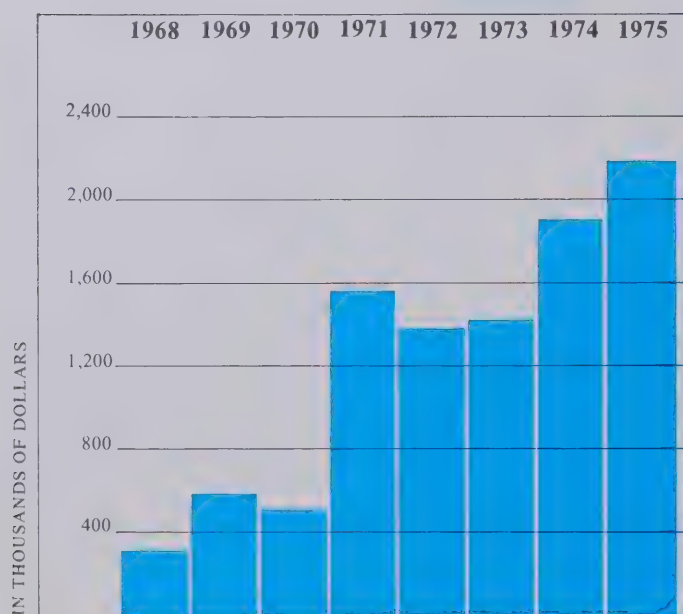
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31				
	1975	1974	1973	1972	1971
Income					
Gross operating income	\$7,975	\$6,106	\$4,029	\$3,566	\$2,982
Investment income	350	347	491	404	434
Gain on sale of securities	44	134	7	27	5
Supervision and sundry	84	42	55	53	51
Mackenzie Delta income	200	—	—	—	—
Gain on sale of fixed asset	46	52	20	62	2
	<u>8,699</u>	<u>6,681</u>	<u>4,602</u>	<u>4,112</u>	<u>3,474</u>
Expenses					
Cost of sale	305	214	—	—	—
Operating expenses	2,201	1,533	910	773	964
General and administrative expenses	420	322	282	254	241
Interest on long-term debt	994	701	—	—	—
Interest — other	116	75	29	15	34
Depletion, depreciation and amortization	933	994	1,040	811	712
	<u>4,969</u>	<u>3,839</u>	<u>2,261</u>	<u>1,853</u>	<u>1,951</u>
Net income before income tax and extraordinary items	<u>3,730</u>	<u>2,842</u>	<u>2,341</u>	<u>2,259</u>	<u>1,523</u>
Income taxes					
Current	(381)	(253)	—	—	—
Deferred	1,734	1,177	944	919	604
	<u>1,353</u>	<u>924</u>	<u>944</u>	<u>919</u>	<u>604</u>
	<u>2,377</u>	<u>1,918</u>	<u>1,397</u>	<u>1,340</u>	<u>919</u>
Minority interest	<u>32</u>	<u>26</u>	<u>—</u>	<u>—</u>	<u>21</u>
Net income before extraordinary items	<u>2,345</u>	<u>1,892</u>	<u>1,397</u>	<u>1,340</u>	<u>898</u>
Extraordinary income (expense)					
Gain on sale of shares in subsidiary	—	—	—	—	637
Gain on sale of land	—	—	—	47	57
	<u>—</u>	<u>—</u>	<u>—</u>	<u>47</u>	<u>694</u>
Net income for the year	<u>\$2,345</u>	<u>\$1,892</u>	<u>\$1,397</u>	<u>\$1,387</u>	<u>\$1,592</u>
Earnings per share					
Net income before extraordinary items	\$ 0.54	\$ 0.44	\$ 0.33	\$ 0.32	\$ 0.21
Net income for the year	\$ 0.54	\$ 0.44	\$ 0.33	\$ 0.33	\$ 0.38

NUMAC OIL & GAS LTD. and Subsidiary Companies

CONTRIBUTIONS OF LINES OF BUSINESS (IN THOUSANDS OF DOLLARS)

	Year Ended December 31				
	1975	1974	1973	1972	1971
Income					
Oil and Gas Division					
Oil and gas income	\$2,561	\$2,037	\$1,533	\$1,074	\$1,077
Investment income	394	481	498	431	439
Mackenzie Delta income	200	—	—	—	—
Other	90	44	55	53	51
Total	3,245	2,562	2,086	1,558	1,567
Oilfield Construction	2,731	2,568	2,516	2,554	1,907
Real Estate	2,723	1,551	—	—	—
	<u>\$8,699</u>	<u>\$6,681</u>	<u>\$4,602</u>	<u>\$4,112</u>	<u>\$3,474</u>
Net Income Before Income Taxes and Extraordinary Items					
Oil and Gas Division	\$2,180	\$1,575	\$1,097	\$ 840	\$ 855
Oilfield Construction	1,292	1,249	1,244	1,419	668
Real Estate	258	18	—	—	—
	<u>\$3,730</u>	<u>\$2,842</u>	<u>\$2,341</u>	<u>\$2,259</u>	<u>\$1,523</u>
Net Income					
Oil and Gas Division	\$1,609	\$1,279	\$ 775	\$ 595	\$ 564
Oilfield Construction	655	606	622	745	334
Real Estate	81	7	—	—	—
Extraordinary Income	—	—	—	47	694
	<u>\$2,345</u>	<u>\$1,892</u>	<u>\$1,397</u>	<u>\$1,387</u>	<u>\$1,592</u>



NUMAC OIL & GAS LTD. and Subsidiary Companies

Management's Discussion and Analysis of the Summary of Operations

1975 COMPARED TO 1974

Oil and gas revenue increased significantly during the year as a result of higher wellhead prices for crude oil together with a small (2%) increase in crude oil production. However, these revenue increases were offset by higher government royalties, averaging 36% of gross revenues in 1975 versus 33% for 1974, resulting in a net increase in oil and gas income of 25.7%.

Gain on sale of securities decreased \$90,000 during the year as a result of the reduction in security sales.

Mackenzie Delta income increased \$200,000 during the year which represents the first payment from the Company's 20% net preferred carried interest under the farmout agreement with Bow Valley and Sun Oil Company (see page 8 of this report).

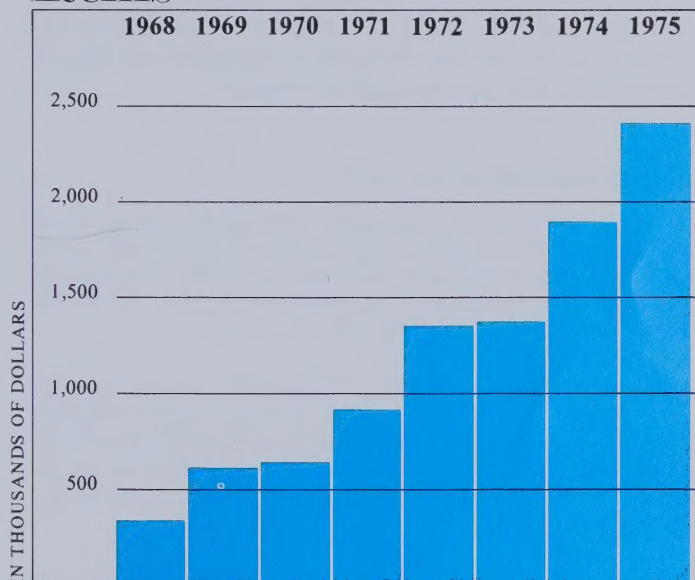
Real estate income increased \$1,172,000 during the year as a result of a subsidiary, Nu-Alta Developments Ltd., operating its Edmonton office tower complex for a full year in 1975 as compared to only seven months operations in 1974 from the date of completion on May 31, 1974. The following costs and expenses also increased due to Nu-Alta Developments Ltd.'s additional five months of operation during 1975:

Cost of sales	\$ 91,000
Operating expenses	500,000
General and administrative expenses	15,000
Interest on long-term debt	254,000
Depreciation and amortization	58,000
Other expenses	14,000
	<u>\$932,000</u>

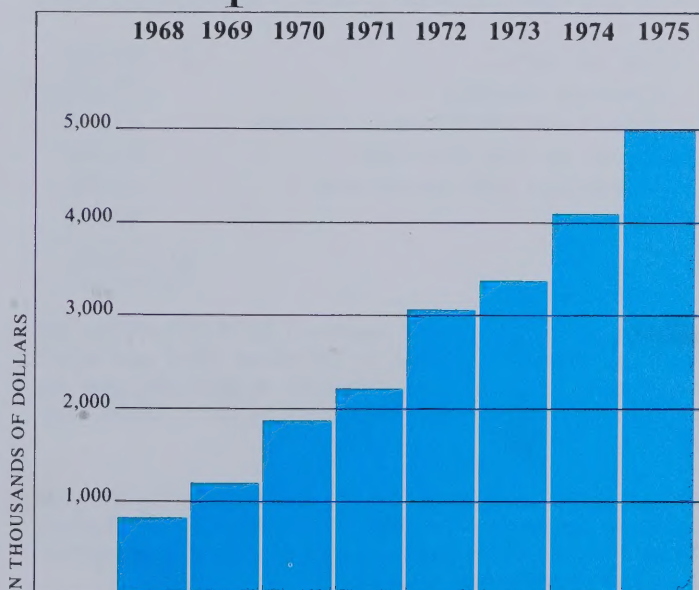
The increase in Nu-Alta Developments Ltd.'s interest expense on long-term debt of \$254,000, shown above, was attributable to the additional five months of operations together with the August increase in the bank debenture loan used to repay shareholders' loan of \$1,000,000 of which the Company received \$600,000 in accordance with its 60% ownership.

Other operating expenses increased \$168,000 during the year and was mainly attributable to increased labor, repair and fuel costs of the Oilfield Construction Division.

Net Income before Extraordinary Items



Net Funds Generated from Operations



NUMAC OIL & GAS LTD. and Subsidiary Companies

Other general and administrative expenses increased \$83,000 during the year and were the result of increased costs of wages, professional fees and travel.

Other interest expense increased \$41,000 during the year and was the result of increased bank borrowings required to finance the Company's increased gas and oil exploration and development activities.

1974 COMPARED TO 1973

Oil and gas revenue increased significantly as a result of higher wellhead prices for crude oil which was offset by (a) a 6% production decrease and (b) a significant increase in government royalties, averaging 33% for 1974 versus approximately 23% for 1973.

Investment income decreased \$144,000 during the year as a result of the conversion of short term securities to cash to finance the Company's increased oil and gas exploration activities. This conversion resulted in an increase of \$127,000 in the gain on the sale of securities during the year.

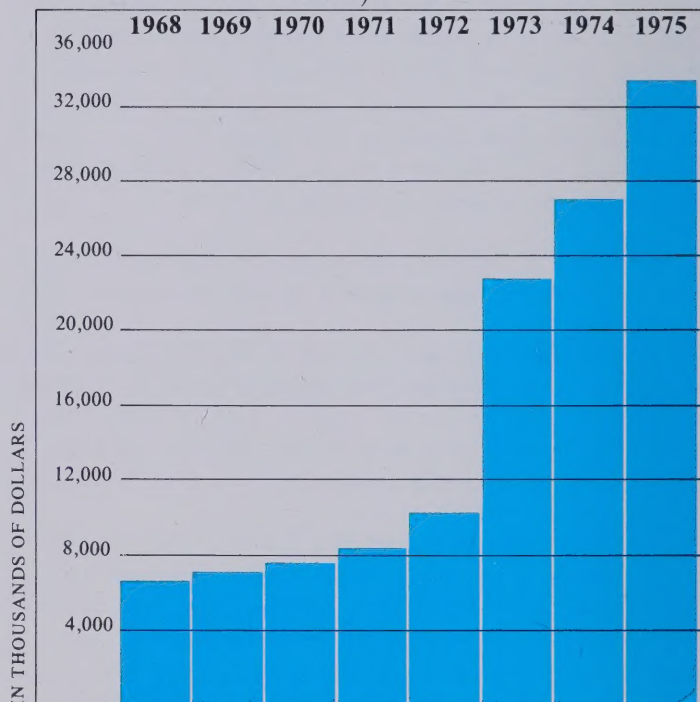
Real estate income increased \$1,551,000 during the year as a result of a subsidiary, Nu-Alta Developments Ltd., completing its Edmonton office tower complex on May 31, 1974 and operating the complex for seven months during the year. The following costs and expenses also increased due to Nu-Alta Developments Ltd.'s operations of the new office complex for seven months during 1974:

Cost of sales	\$ 214,000
Operating expenses	447,000
General and administrative expenses	47,000
Interest on long term debt	701,000
Depreciation and amortization	84,000
Other	40,000
	<u>\$1,533,000</u>

Other operating expenses increased \$176,000 during the year and were attributable to: increased labor and repair costs of the Oil and Gas Division of \$88,000; and increased labor, repair and fuel costs of the Oilfield Construction Division.

Other interest expense increased \$46,000 during the year and was the result of increased bank borrowings required to finance the Company's increased oil and gas exploration and development activities.

Fixed Assets, Net



Working Capital

